



60th Legislative Session
House Appropriations Committee
March 23, 2007
Scott A. Miller

Montana Public Employee Retirement Administration

House Bill No. 125 Repay Loan for Startup Costs of the Defined Contribution Retirement Plan

- ❖ The Defined Contribution Retirement Plan (DCRP) was created by statute in 1999 following the passage of HB 79.
- ❖ The startup costs to design and implement the DCRP were \$1,535,695.00, which is less than the \$1,700,000.00 contemplated by the fiscal note.
- ❖ As introduced, HB 79 had a proposed funding source for those startup costs. Because of the tight state budget that year, however, that funding source was removed and a long-term loan was substituted to fund the startup costs.
- ❖ The repayment source for that loan is a portion of the contribution to each DCRP member's account.
- ❖ When introduced, the Legislature assumed that 15-25% of eligible employees would elect to participate in the DCRP. Based on that amount of participation, repaying the loan from contributions to the DCRP would have been feasible.
- ❖ That assumption was substantially higher than the number that actually chose the DCRP: only 3% of then-current defined benefit retirement plan members chose the DCRP option, and currently only 4% of those eligible for the DCRP actually participate in the DCRP.
- ❖ As a result, the contributions from the DCRP members are not sufficient to repay the loan. We have already had to renegotiate the loan once. It is now a variable interest loan with graduating payments and a termination date in 2018.
- ❖ Repaying the loan from DCRP member accounts would require the members to contribute 4.6% of their account balances. That is substantially greater than the 4.16% available employer contribution left over after deduction for the plan choice rate, education fund and disability benefit rate. That is also a substantial hardship for the DCRP members. Query whether we would have had any participation if the member received none of the employer contribution.
- ❖ The State is the plan sponsor, and should be responsible for sustaining a program it created with inadequate funding. I urge you to support HB 125. Thank you.